

Appendix

- ☐ Letter from Arthur Andersen
- ☐ April 26, 2001 Compensation Committee Presentation from Piper Marbury Rudnick & Wolf and the Hay Group



ARTHUR ANDERSEN

To: Sharon Vecchioni, CareFirst, Inc.
From: Steven Bloom, Chris Hamilton, and Brad Goldsmith, Arthur Andersen LLP
Date: June 4, 2001
Re: Review of CareFirst Change-in-Control payment calculations (as of June 1, 2001)

CareFirst, Inc. ("CareFirst") has requested that Arthur Andersen LLP ("Arthur Andersen") review calculations performed internally by CareFirst of potential payments certain CareFirst executives may receive, assuming a Change-in-Control ("CIC") occurs on April 1, 2003. Due to the future and uncertain timing of the anticipated CIC, compensation levels (i.e., base salary, annual incentive and future LTIP grants) have been projected in order to estimate payment amounts at the anticipated CIC date. Accordingly, future payment calculations may change once actual compensation levels are considered.

Arthur Andersen has reviewed calculations for the following potential payments to the CEO, Executive Vice Presidents, Senior Vice Presidents and other Long-term Incentive Plan ("LTIP") participants:

- Lump Sum Severance ¹
- Annual Incentive
- LTI Deferral Balance
- LTI Outstanding Grants

Please note that the above list *does not* constitute all payments that CareFirst is contractually obligated to make at present (i.e., SERP and qualified pension plan distribution amounts) or may in the future enter into agreements to provide (i.e., merger incentive bonuses and retention bonuses) upon the anticipated CIC. At this time, Arthur Andersen has reviewed sufficient source documentation pursuant to, and is prepared to provide a statement on, *only* calculations of payments listed above.

Based on our review of plan documents and other source materials provided by CareFirst, Arthur Andersen believes that the above payments calculated by CareFirst are materially accurate. Arthur Andersen has, however, identified minor inconsistencies between the CareFirst calculations and provisions of certain employment/CIC agreements. Additionally, Arthur Andersen has projected slightly different future LTIP grant levels than CareFirst.

Subject to the above discussion, attached is a schedule of the payment amounts Arthur Andersen believes to be accurate. These amounts *do not* include potential, associated excise taxes that may apply. Please note that such excise taxes may substantially increase the payment liabilities.

¹ Other LTIP participants (who do not have employment or CIC agreements) are eligible for severance payouts under the CareFirst Severance Plan. The total payment amounts Arthur Andersen has reviewed, and represented as materially accurate for the purposes of this letter, do not include these particular severance payments.

Merger Incentive and Retention Plans

CareFirst BlueCross BlueShield Board of Directors

April 26, 2001

Pages 7-10 Updated for
\$1.3 billion Purchase Price

OCC 016378



HayGroup

Purpose

- Align the Interests of Management with the Interests of the Stakeholders
- Focus the Attention of Management on Maintaining and Maximizing Value for Stakeholders
- Ensure that Management has the Necessary Incentives to drive the Sale Process through Conclusion for the Benefit of the Stakeholders

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